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SUBJECT: SRI LANKA'S PARLIAMENT PASSES GROUND-BREAKING  
LABOR REFORMS

1. Summary: The Sri Lankan Parliament passed three important bills containing ground-breaking, and contentious, labor reforms on January 8. The bills contain new industrial dispute resolution and termination procedures. The legislation is expected to improve industrial relations by prompt and equitable settlement of labor disputes. The government was forced to incorporate last minute amendments to the bills to accommodate opposition demands. Nonetheless, the reforms are a big win for the United National Front (UNF) government in its push toward further economic liberalization. End Summary.

2. The Sri Lankan parliament on January 8 approved three bills containing important labor reforms. The bills were:

-- Amendments to the Industrial Disputes Act (hearing and determination procedure), which contained provisions for expeditious hearing and determination of industrial disputes including employment termination cases;

-- Amendments to the Termination of Employment of Workmen (Amendment) Act (TEWA) containing new provisions for termination including compensation as an alternate to reinstatement, provision for a compensation formula by the government and granting employees the right to be heard by the Commissioner;

-- Amendments to the Employment of Women, Young Persons and Children Act to increase fines and prison sentences for violating labor laws.

3. The first two amendments encountered heavy resistance from labor unions and opposition political parties. The amendment to the termination of employment act drew the heaviest criticism, as the government was relaxing the termination procedure in the absence of an unemployment insurance or compensation scheme. During the debate, the Labor Minister pledged that a comprehensive unemployment safety net would follow the current legislation. According to Labor Ministry sources the Minister has also promised to conduct multi-party discussions regarding the compensation formula and to present the formula to Parliament for approval.

4. Parliament approved the labor amendments after one and a half days of debate. The amendments met stiff opposition both within the Parliament and outside, with JVP-led trade unions leading protest campaigns on the streets of Colombo. In fact, after the Labor Minister presented the bills to parliament, parliamentary sittings were suspended for an hour when the opposition leader asked for a postponement of debate pending further discussion with trade unions. The debate, however, went on. Backstage maneuvering by the Prime Minister paved way for the passage of the bills, with amendments.

5. According to Labor Ministry sources, the amendments did not contain substantive changes to any of the reforms, only minor adjustments such as lengthening the proposed timeframe for dispute resolution. The first two pieces of legislation were passed with 121 votes for and 68 against. The third, containing increased fines for violating certain labor laws, passed without vote.

6. Comment: Sri Lanka, already the most open economy in South Asia, has just taken a giant leap toward greater economic liberalization. The passage of this legislation - which for months had been promised by the pro-business UNF government and resisted by the unions - was surprisingly quick. The assurances of the Labor Minister that a social safety net would be in place for dismissed workers, some minor concessions, and maneuvering by the Prime Minister helped to get the job done. These are critical steps for the government, which is eager to attract new foreign investment. Sources tell us that the Prime Minister is preparing to move more quickly and aggressively on further economic reforms this year. He has the popular support to make changes, but he will need strong political will to push the tougher ones through. End comment.

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